

TEACHERS' RETIREMENT BOARD
SUBCOMMITTEE ON CORPORATE GOVERNANCE

SUBJECT: Corporate Governance Initiatives

ITEM NUMBER: 4

ATTACHMENTS: 4

ACTION: X

DATE OF MEETING: April 3, 2002

INFORMATION:

PRESENTERS: Elleen Okada/Janice Hester Amey

Executive Summary

At the last meeting of the Subcommittee on Corporate Governance held on March 6, 2002, an extensive set of proposals relating to **Financial Market Reform** was presented. After substantive discussion, staff was directed to review the body of the proposals, and to present a rationalized implementation plan for **CalSTRS' Financial Market Reform Initiatives**. Staff has prepared a matrix, in consolidated form, that categorizes all key initiatives by subject matter. Staff consulted a variety of sources to aid in the preparation of this item, including: The American Society of Corporate Secretaries, the New York Stock Exchange, The National Association of Securities Dealers, the American Institute of Certified Public Accountants, the National Association of Corporate Directors, the Securities and Exchange Commission, the Council of Institutional Investors, the Teachers Investors Annuity Association-College Retirement Equity Fund, and other public pension funds. Additionally, staff reviewed the reports, commentary and proposed legislation on the issues presented in the key initiatives. Common themes emerged; the matrix presented in Attachment 2 is a representation of the commonality of issues and the solutions proposed.

The most important vote/decision that shareholders have is the one for the Board of Directors. All of the review committees are subsets of the entire Board of Directors; it would follow that the priority for CalSTRS and other shareholders should be Board Governance.

The Audit Committee has not had the attention paid to it in recent years that the Nominating, Compensation and Governance Committees have received. Prior to the year 2000, the Securities and Exchange Commission had not attempted to amend its auditor independence requirements since 1983. At the end of 1981, non-audit services represented only 13% of the total revenues of the top five accounting firms. From 1993 to 1999, the average annual growth rate for revenues from non-audit services has been 26%; comparable growth rates for audit and tax services have been, 9 and 13%, respectively over this same period. With the significant change in the role of external audit firms, and internal audit/financial reporting, the role of the Audit Committee has to be reexamined.

Summary of Key Initiatives

(A) Director Independence and Disclosure

1. Audit Committee Independence
2. Audit Committee Authority and Responsibility
3. Audit Committee Qualifications
4. Executive Compensation

(B) External Auditor Independence and Disclosure

1. Limitations on Non-Audit Services
2. Rotation of External Audit Firm
3. Limit External Auditor Terms to 3-5 Years
4. Cooling-Off Period Regarding Employment with Client
5. Redundant Independent Audits

(C) Deferred Compensation/Defined Contribution Plans

1. Employees will have a choice on whether to invest in a company's defined contribution plan.
2. Employees will have a choice over the form of employer/company's matching contribution.
3. Limit employer stock holdings in employee defined contribution plans to 10% or less unless employee requests the company to waive the cap and allow the employee to allocate 100% of her defined contribution plan to company stock.
4. Reduce or eliminate corporate restrictions on employee liquidation of company stock.
5. No record keeper transition/change or resulting blackout period if company stock has declined 30% over the previous 60 days
6. Support, in Concept, Selected Legislative Efforts to Protect Retirement Security

(D) Accounting Standards

1. Reform/Review the Accounting Standards, especially Regarding New/Complex Financial Transactions (Special Purpose Entities or SPEs)
2. Improve Accounting Industry Oversight/ Regulatory and Enforcement Powers
3. Increased Disclosure Standards of Auditor Services/Revenues
4. Increase Mandatory Liability Limits for External Auditor Firms
5. Broader Disclosure of Client Company's Entrance into Forward Equity Contracts

(E) General Governance

1. Develop General Guidelines for a Governance System
2. Establish Minimum Corporate Governance Standards
3. Reform the Private Securities Litigation Reform Act of 1995 (PSLRA)

Staff is proposing that policy language be revised and/or added regarding the role, authority, structure and qualifications of Audit Committees, the independence of external audit firms and the importance of director independence. This language is found in the **CalSTRS Internal Action** section of the matrix and is an important first step in aligning policy with the **CalSTRS External Action(s)** that the fund will take to advance its policies/views on a national level.

This summary presents the issues in this rationalized order and the accompanying matrix follows this order. The summary of the key initiatives discussed last month is attached to this item and labeled, **Attachment 1**.

The categories of the matrix are: **Concerns; CalSTRS Internal Action; CalSTRS External Action; Relevant Entities; and Status**. Viewed in this way, it appears that there are five overarching issues; each subheading that occurs under the overarching issue in bold has the recommended action in both the **CalSTRS Internal and CalSTRS External Action** sections. Staff has attempted to define the **Relevant Entities** for each action category and include a **Status** section for each recommended action as well. **This matrix serves as the CalSTRS Implementation Plan Regarding Financial Market Reform, and is attached and labeled, Attachment 2.**

The **‘Financial Responsibility Criteria for Corporate Investments’** is attached to this item and labeled, **Attachment 3**. Suggested changes, taken from the matrix section, **CalSTRS Internal Action** are **bolded** and **underlined** for your reference.

The External Affairs and Program Development Branch (EAPD) has prepared a federal legislative matrix on the **Financial Market Reform Initiatives**. This matrix is referenced in the **CalSTRS Implementation Plan Regarding Financial Market Reform** matrix and is attached and labeled, **Attachment 4**.

Recommendation

Staff recommends that the members approve the attached matrix as the **CalSTRS Implementation Plan Regarding Financial Market Reform**. Staff intends to update the Status column regularly and provide detailed reports to the Subcommittee on any progress/action taken to advance the CalSTRS Plan.

IMPLEMENTATION PLAN REGARDING FINANCIAL MARKET REFORM

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Director Independence/Disclosure				
1) Audit Committee Independence	Amend Financial Responsibility Criteria for Corporate Investments, Section B, 'Board of Directors', by adding 3A: "It is concluded that since the Audit Committee is a subset of the entire Board of Directors, the performance of the Audit Committee is the responsibility of the entire Board of Directors. The Board of Directors must provide active and independent oversight of all of its review committees, such as Audit, Nominating, Compensation, and Governance. All persons who serve on Audit Committees must be unaffiliated, independent directors, whose only material relationship to the company is the directorship. In recognition of the unique expertise and time commitment required for the Audit Committee, CalSTRS supports the view that members of the Audit Committee should receive greater compensation than other Board Committees. The Board of Directors should also consider limiting the term of Audit Committee service, by automatic rotation or other methods."	Proactive communication of CalSTRS' views on the importance of Audit Committee independence Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII* Use press, speaking forums Seek buy-in from other institutional investors Testimony	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

NASD = National Association of Securities Dealers
NYSE = New York Stock Exchange
SEC = Securities and Exchange Commission
NACD = National Association of Corporate Directors
AICPA = American Institute of Certified Public Accountants
CII = Council of Institutional Investors

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Director Independence/Disclosure				
2) Audit Committee Authority/ Responsibility	<p>Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors' by replacing subheading 1 with: "The Audit Committee has a unique role in the capital markets and the overall governance structure. The Audit Committee shall have at least 3 members and no more than 5. The Audit Committee shall adopt a formal, written charter and provide a report that references the charter and disclosure, in the company's annual report/proxy statement whether the Audit Committee has complied with its charter responsibilities. Any amendments to the Audit Committee charter shall be reported to the shareholders in the annual report/proxy statement. The Audit Committee members must have full access to company financial documents. The Audit Committee shall regularly evaluate the relationship between management and the external and internal auditors. The Audit Committee shall have responsibility and authority to select, retain/replace and evaluate the external auditor, including any issues that may impair the external auditor's independence and direct the scope of the duties to be performed. The Audit Committee and the Board of Directors, as the fiduciary representatives of shareholders, are the ultimate authority to which the external and internal auditors are accountable."</p>	<p>Proactive communication of CalSTRS views on importance of Audit Committee qualifications</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	<p>CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration</p>	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Director Independence/Disclosure				
3) Audit Committee Qualifications	<p>Amend Financial Responsibility Criteria for Corporate Investments by revising Section A, 'Auditors', to include subsection 2: "All members of the Audit Committee will be persons whose past/current employment experience/education demonstrates expertise in finance and/or accounting, including being or having been a CEO or other senior executive officer with financial oversight responsibilities. The Board of Directors shall provide a written and signed statement in the annual report/proxy statement, attesting that it has determined that the members of the Audit Committee have the expertise in finance and/or accounting necessary for the execution of its oversight and monitoring duties. The Board of Directors shall attest in this statement, that the Audit Committee members can read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. The Board of Directors shall assess the adequacy of the Audit Committee on an annual basis. This report should have the same protections offered by the SEC in its "safe harbor"</p> <p>for the existing Executive Compensation report included in the proxy statement."</p>	<p>Proactive communication of CalSTRS' views on importance of Audit Committee qualifications</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Director Independence/Disclosure				
4) Executive Compensation	Research and recommend standards for better disclosure	Proactive communication of CalSTRS' views on the importance of plain language descriptions and heightened disclosure	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
External Auditor Independence and Disclosure				
1) Limitations on Non-Audit Services	Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 3 to read: "CalSTRS supports the limitation of non-audit services that an external auditor can provide to an audit client. If non-audit services other than taxation issues are provided and disclosed, CalSTRS may cast a negative vote against that auditor's continuance. External auditors that also have direct investments in audit clients or affiliates of audit clients will not be considered as Independent Auditors/Accountants and CalSTRS may cast a negative vote against the auditor's selection/adoption."	Proactive campaign to prohibit/restrict non-audit services to anything other than taxation issues Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII Use press, speaking forums Seek buy-in from other institutional investors Testimony	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration
2) Rotation of External Audit Firm	Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 4 to read: "CalSTRS supports limiting external auditor firms to seven consecutive years of audit service to portfolio companies."	Proactive communication of CalSTRS policy of seven-year rotation of external audit firms Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII Use press, speaking forums Seek buy-in from other institutional investors Testimony	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
External Auditor Independence and Disclosure				
3) Limit External Auditor Terms to 3-5 Years	See Item 2 above. Staff recommends 7 years.	<p>Proactive communication of CalSTRS policy of seven-year rotation of external audit firms</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
External Auditor Independence and Disclosure				
4) Cooling-Off Period Regarding Employment with Client	Amend the Financial Responsibility Criteria for Corporate Investments, Section A, 'Auditors', to include subheading 5 to read: "CalSTRS supports a one year cooling-off period regarding the employment, as either Staff or a Member of the Board of Directors, of persons on the companies' external audit team or senior management of the external audit firm."	<p>Proactive campaign to prohibit employment by external auditor team personnel or external audit firm control persons with client for one year, in either staff or board role.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration
5) Redundant Independent Audits	CalSTRS staff does not recommend redundant independent audits. Emphasizing the role of the Audit Committee and strengthening its authority and competence, along with the seven-year rotation suggested change to policy obviates the need for such an expensive, cumbersome process.	<p>Redundant audit issue addressed in emphasis on Audit Committee and the seven-year rotation above.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Deferred Compensation Defined Contribution Plans				
1) Employees will have a choice on whether to invest in a company's defined contribution plan	Support choice on whether to invest in a company's defined contribution plan.	Support selected federal legislation/regulatory/administration proposal that will codify this choice.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration
2) Employees will have a choice over the form of employer/company's matching contribution	Support choice over the form of employer/ company's matching contribution.	Support selected federal legislation/regulatory/administration proposals that will codify the choice over the form of employer/company's matching contribution.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration
3) Limit employer stock holdings in employee defined contribution plans to 10% or less unless employee requests the company to waive the cap and allow the employee to allocate up to 100% of her defined contribution plan to company stock	Support default cap as long as it allows employee to choose whether to increase investment in company stock.	Support selected federal legislation/regulatory/administration proposal to set a default cap (10% or less unless employee requests waiver). Not directly addressed on national level.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Deferred Compensation Defined Contribution Plans				
4) Reduce or eliminate corporate restrictions on employee liquidation of company stock	Support easing of restrictions on employee liquidation of company stock and increased education regarding the provision.	Support the reduction/elimination of restriction on employee liquidation of company stock.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration
5) No record keeper transition/change or resulting blackout period if company stock has declined 30% over the previous 60 days	Support the restriction of record keeper changes and any resulting blackout period if company stock has declined 30% or more over the previous 60 days. Employees should also receive increased education about this provision.	Support record keeper transition restrictions. Not currently addressed on the national level.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration
6) Support, in concept, selected legislative efforts to protect retirement security	Support selected legislative efforts to protect retirement security that address issues presented here.	Support selected legislative efforts to protect retirement security.	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration, Department of Labor, PBGC	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Accounting Standards				
1) Reform/review the Accounting Standards, especially regarding new/complex financial transactions (Special Purpose Entities or SPEs)	Support the reform/review of accounting industry standards and accounting standards, generally. Independent industry accounting standards and transaction accounting standards are prophylactic for all investors. Independent auditors should not be advocates for audit clients; unlike other service vendors who must satisfy the client to make a sale, independent auditors occupy a unique position in our capital markets and hold a public trust. Audit work should be priced fairly, not at marginal rates, in the hopes of securing management advisory services at more profitable levels.	<p>Support CII policy and legislative/regulatory/administrative proposals that accounting standards be updated. Seek buy-in of institutional users of financial statements, such as SEC, NYSE, NASD, investment analysts, investment managers, banks, underwriters.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Accounting Standards				
2) Improve Accounting Industry Oversight/ Regulatory and Enforcement Powers	Support the improvement of oversight of the accounting industry by the Securities and Exchange Commission.	<p>Support greater oversight by the SEC. Current proposals want the private sector to pay for an oversight arm of the SEC, but want the agency to be independent of the accounting profession/industry; may not be possible. All proposals would give the oversight body subpoena and disciplinary power. Currently being reviewed legislatively.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Accounting Standards				
3) Increased disclosure standards of auditor services/revenues	Support the increased disclosure standards relative to non-audit services. We will actively support the prohibition against all non-audit services, but without a prohibition, disclosure is a necessity for investors.	<p>Support CII, SEC, as well as other institutional investors efforts regarding the increased disclosure of auditor ties.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration
4) Increase mandatory liability limits for external auditor firms	Support the increase of liability limits for external auditor firms, although it is recognized that an independent auditor's report is no guarantee that a company will prosper.	<p>Support increased liability limits for external auditor firms. Not addressed by others yet; seek buy-in from other investors, as well as SEC, appropriate legislative/regulatory parties.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
Accounting Standards				
5) Broader disclosure of client company's entrance into forward equity contracts	Support increased disclosure and information regarding companies' risk with respect to forward equity contracts	<p>Support broader disclosure regarding risk of company's entry into forward equity contracts. Seems to be addressed in the accounting standards, may need more flexible language. Not addressed by others yet. Further research is needed.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
General Governance				
1) Develop general guidelines for a governance system	Support the active dissemination of general governance guidelines and a best practices of corporate governance	<p>Enhance director independence standards; board committee standards. Require all review committees to be comprised entirely of independent directors.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

CONCERN	CALSTRS' INTERNAL ACTION	CALSTRS' EXTERNAL ACTION	RELEVANT ENTITIES	STATUS
General Governance				
2) Establish minimum corporate governance standards	Addressed above	<p>Eliminate broker voting; support CII, CalPERS efforts on this. Seek buy-in of others in the proxy process, especially corporations.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration
3) Reform the Private Securities Litigation Reform Act of 1995 (PSLRA)	Support reform of the Private Securities Litigation Reform Act of 1995 as it relates to liability standards for independent auditors.	<p>Support reform of the Private Securities Litigation Reform Act of 1995 with respect to joint and several liability. Seek buy-in of others in the securities litigation area, such as CalPERS and other institutional investors.</p> <p>Send letters to oversight bodies such as NASD, NYSE, SEC, NACD, AICPA, CII</p> <p>Use press, speaking forums</p> <p>Seek buy-in from other institutional investors</p> <p>Testimony</p>	CalSTRS, CalPERS, NASD, NYSE, SEC, NACD, AICPA, CII, National Legislatures/Regulatory/State Regulatory/Legislative bodies, Administration	Under consideration

FINANCIAL RESPONSIBILITY CRITERIA FOR CORPORATE INVESTMENTS

The following criteria deal with matters considered of a financial nature only. In most cases they are general policy guidelines to voting shares held at annual and special corporation shareholder meetings. They are not designed to substitute for analysis and judgement, which should be exercised as circumstances dictate. The guidelines should not be regarded as mandatory, if local factors and prudence suggest otherwise. Each issue will be reviewed to ascertain surrounding facts, and exceptions may be made based on the legal requirements of the countries, local conventions or states in which the company is registered. It is recognized that, in foreign markets, there may be practical difficulties in obtaining notices of company meetings and that the timeliness and disclosure requirements, which prevail in the U.S., are often not evident. In those circumstances where adequate and timely disclosure of information necessary to reach an informed and meaningful decision is not possible, the responsible party may abstain. It is also recognized that the decision to abstain by the party responsible for voting the proxy may be due to practical difficulties, to other financial criteria, which outweigh the benefits to be gained by voting or to practical difficulties and circumstances beyond its control. Notwithstanding any limitations, it is expected that there will be no abstentions on issues that may affect the economic value of the shareholdings. It is expected that in all cases, the parties will make a good faith effort to get the necessary materials, but it is recognized that, in foreign markets, the means for obtaining planned company meeting notices, dates and agendas, may not be readily available. Nevertheless, a true and accurate record shall be kept of the materials, which have been obtained, and of how proxies have been voted or otherwise managed. This record shall include, to the extent possible, a description of efforts made to obtain materials, which were not successful and the reasons why the efforts were not successful. It is understood that it is the intent of the Teachers' Retirement Board to exercise its voting authority, either directly or through other parties, to whom it has delegated responsibility for voting proxies, according to their judgement of its best financial interests, whenever and wherever possible, and that, while logistics or other factors may sometimes interfere with this intent and principle, it is the ultimate goal of CalSTRS to work with the indicated parties to remove the barriers to voting all shares over time.

A. AUDITORS

- ~~1. When there is reason to believe the company's auditors have become complacent in the performance of their auditing duties, a vote against that auditors' continuance may be cast.~~
1. **The Audit Committee has a unique role in the capital markets and the overall governance structure. The Audit Committee shall have at least 3 members and no more than 5. The Audit Committee shall adopt a formal, written charter and provide a report that references the charter and disclosure, in the company's annual report/proxy statement whether the Audit Committee has complied with its charter responsibilities. Any amendments to the Audit Committee charter shall be reported to the shareholders in the annual report/proxy statement. The Audit Committee members must have full access to company financial documents. The Audit Committee shall regularly evaluate the relationship between management and the external and internal auditors. The Audit Committee shall have responsibility and authority to select, retain/replace and evaluate the external auditor, including any issues that may impair the external auditor's independence and direct the scope of the duties to be performed. The Audit Committee and the Board of Directors, as the fiduciary representatives of shareholders, are the ultimate authority to which the external and internal auditors are accountable.**

2. All members of the Audit Committee will be persons whose past/current employment experience/education demonstrates expertise in finance and/or accounting, including being or having been a CEO or other senior executive officer with financial oversight responsibilities. The Board of Directors shall provide a written and signed statement in the annual report/proxy statement, attesting that it has determined that the members of the Audit Committee have the expertise in finance and/or accounting necessary for the execution of its oversight and monitoring duties. The Board of Directors shall attest in this statement, that the Audit Committee members can read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. The Board of Directors shall assess the adequacy of the Audit Committee on an annual basis. This report should have the same protections offered by the SEC in its "safe harbor" for the existing Executive Compensation report included in the proxy statement.
3. CalSTRS supports the limitation of non-audit services that an external auditor can provide to an audit client. If non-audit services other than taxation issues are provided and disclosed, CalSTRS may cast a negative vote against that auditor's continuance. External auditors that also have direct investments in audit clients or affiliates of audit clients will not be considered as Independent Auditors/Accountants and CalSTRS may cast a negative vote against the auditor's selection/adoption.
4. CalSTRS supports limiting external auditor firms to seven consecutive years of audit service to portfolio companies.
5. CalSTRS supports a one year cooling-off period regarding the employment, as either Staff or a Member of the Board of Directors, of persons on the companies' external audit team or senior management of the external audit firm.

B. BOARD OF DIRECTORS

1. Generally, information and circumstances permitting, votes are to be cast in favor of annual election of all directors and against staggered terms. Exceptions may be made as circumstances dictate or when pertinent information is unavailable. Once all shareholders have decided through the voting process that the board should be staggered, nominees should be elected based on their qualifications and merits, though CalSTRS' interest may argue for actions proposing the repeal of staggered terms.
2. Generally, votes are to be cast in favor of simple majority approval, of shares outstanding, as appropriate for merger proposals. Proposals seeking higher percentages may be approved only if approval is in the financial interest of CalSTRS. Exceptions may be made when pertinent information is unavailable. For example, a proposal which sought to reduce the super majority requirement from 80% to 66 2/3% would generally receive a favorable vote; whereas, a proposal to increase the vote required from a simple majority to a higher percentage would generally not receive a favorable vote.

3. It is concluded that corporate board members primary responsibilities should be to direct the companies in the interest of all the shareholders. Any proposed director qualifications should relate to a prospective director's capacity to function on behalf of all the shareholders; to the extent that such qualifications are disclosed, votes are to be cast on this basis. However, as a matter of policy, CalSTRS supports the concept of an independent non-executive chairman, who has not had a substantive employment relationship with the company in the past five years. Shareholder proposals which seek a non-executive chairman will generally receive support and may be introduced on behalf of CalSTRS.

Sitting directors who have been on the board for a full year and who have not attended at least 75% of the meetings will receive a negative vote. In such cases, CalSTRS will split its votes on the issue of directors and vote against the individual nominee. In casting its vote regarding directors, the financial performance of the subject corporations will be reviewed, and if long-term underperformance, relative to the market and industry group are severe, a negative vote may be cast for the entire slate of directors.

- A. **It is concluded that since the Audit Committee is a subset of the entire Board of Directors, the performance of the Audit Committee is the responsibility of the entire Board of Directors. The Board of Directors must provide active and independent oversight of all of its review committees, such as Audit, Nominating, Compensation, and Governance. All persons who serve on Audit Committees must be unaffiliated, independent directors, whose only material relationship to the company is the directorship. In recognition of the unique expertise and time commitment required for the Audit Committee, CalSTRS supports the view that members of the Audit Committee should receive greater compensation than other Board Committees. The Board of Directors should also consider limiting the term of Audit Committee service, by automatic rotation or other methods.**

4. Generally, votes are to be cast against blanket requests for limitations of liability and indemnification protection of directors and officers. Generally, such requests allow the protected individual to escape liability even if he or she is found by the courts to have been grossly negligent in the performance of his or her duties as a director and/or officer of the corporation. It is concluded that it is not in the best interest of shareholders to grant such protection on an-across-the-board basis. Exceptions may be made as circumstances and legal requirements dictate.

- A. Legal requirements and circumstances permitting, positive votes may be cast for management sponsored proposals requesting increased indemnification of directors and officers due to damage caused by violations of the duty of care, so long as the director/officer satisfied a "good faith" standard. Broader protection may be supported, provided there is a reasonable basis for support.
- B. Legal requirements and circumstances permitting, positive votes may be cast for increased indemnification proposals where a director/officer defense is unsuccessful, unless there is a final legal/court determination that the director/officer acted in bad faith and not for a purpose that he or she could reasonably believe was in the best interest of the company. Broader protection may be supported, provided there is a reasonable basis for such support.

- C. Legal requirements and circumstances permitting, negative votes may be cast against company proposals that request the elimination or limitation of directors' liability for acts evolving from negligence, or other violations of the duty of care that go beyond reasonable standards, except in markets where local conventions suggest otherwise.
5. Votes may be withheld for the entire slate of directors if a majority of the candidates are also corporate officers. Votes may be cast against the entire slate of directors if a majority of the candidates are also corporate officers or have been corporate officers in the past of the company. Additionally, votes may be withheld when it appears that the existing board has been remiss in the performance of its oversight responsibilities. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party. Finally, negative votes may be cast when committees, such as the Nominating, Compensation and Audit, are not composed of independent directors.
6. Votes are generally to be cast against the payment of fees to inside directors. Votes are generally to be cast against proposals granting retirement benefits and/or stock options, stock grants to outside directors, except in markets where local conventions suggest otherwise. However, proposals which seek to pay outside directors' fees in stock instead of cash will receive a positive vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
7. Votes may be withheld for directors who may have an inherent conflict by virtue of receiving consulting fees from a corporation such as legal counsel and investment bankers who underwrite the corporation's securities. It is concluded that outside directors should remain independent in order to serve the best interest of all shareholders. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
8. Generally, votes should be withheld for the entire slate of proposed directors when management is proposing a series of defensive measures, which serve to insulate incumbent management and hinder the ability of mergers or takeovers to proceed. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
9. Where director candidate(s) are employed by a company having a 20% or greater interest in the subject company, the director candidate(s) will be considered insiders. Should the majority of the director candidates be insiders or have conflicts of interest, votes may be withheld for the entire slate of candidates. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
10. Generally, shareholder proposals requesting the board of directors to establish a nominating committee for the selection of director candidates are to receive a favorable vote. CalSTRS believes that all important review committees such as nominating, audit and compensation should be entirely staffed by independent directors. Proposals and/or actions which seek to have such a structure established may be initiated or supported by CalSTRS. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.

11. Proposals which seek to limit the tenure of directors should receive a negative vote. Proposals which require directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board should receive a negative vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.

C. CORPORATE GOVERNANCE

1. Whenever possible, votes will be cast in favor of cumulative voting proposals as required for governmental pension funds under California law. (Section 6900, Government Code)
2. Generally, information, legal requirements and investment analysis permitting, votes may be cast against proposals which would grant preemptive rights to shareholders and in favor of proposals which would eliminate such rights. In some markets, preemptive rights result in a loss of financing flexibility and are likely to deter companies from fulfilling one of their functions, which is to raise capital advantageously. However, in some markets it is believed that the removal of preemptive rights result in a loss of financing flexibility. Thus, the party responsible for executing the vote must exercise his or her best judgement on this matter.

D. EXECUTIVE COMPENSATION

1. Stock options and incentive compensation plans must have the overriding purpose of motivating corporate personnel. To insure that such plans are cost and performance effective, attention should be paid to corporate performance. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.

Generally, proposals which only seek to enable corporations to comply with the tax code deductibility rules regarding executive pay are to receive a favorable vote. Exceptions may be made in the instance of mega grants, unclear links between performance, performance hurdles that seem too generous given past history, and no defined peer group by which to judge performance of the subject corporation. Tandem stock options, stock appreciation rights, purchased options may receive a negative vote. Generally, tandem options are a combination of stock options and another type of long-term incentive such as restricted stock or phantom stock. This vehicle can allow for cashless exercise, depending upon the executive choice of exercise or payment. CalSTRS is opposed to cashless exercise. Purchased options are usually purchased for a percentage of the grant value and are payable at the time of grant. The exercise price is set below the fair market value of the underlying stock. Indexed options will be reviewed on a case-by-case basis.

2. Votes are generally to be cast against executive incentive stock option plans which would result in greater than 15% of the outstanding shares of the Corporation being reserved exclusively for the executive stock option plan, except in markets where local conventions suggest otherwise. This figure includes shares proposed for a new plan or amendment plus shares reserved under all existing plans, plus all shares under option but not yet exercised. Typically, no greater than 2 percent dilution per year for the life of the plan should be experienced by shareholders. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.

3. Votes are generally to be cast against executive incentive stock option plans which would sell shares to executives at a price of less than 85% of market value at the time of grant, unless a lower value may be legally offered.
4. Votes are generally to be cast against executive incentive stock option plans which would grant loans to such executives for the purpose of exercising stock options. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
5. Votes are generally to be cast against executive incentive stock option plans which would grant loans to such executives to settle tax liabilities associated with the exercising of incentive stock options. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
6. Votes are generally to be cast against Restricted Stock Option Plans, outright stock grants or other arrangements to such as pyramiding, stock appreciation rights and cashless exercise. Votes are generally to be cast against proposals which would allow the board to replace or reprice underwater options without shareholder approval. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
7. Executives are defined as the five most highly compensated executive officers of a Company and its subsidiaries, and such other senior-level executive and management employees who are designated to receive executive incentive compensation, apart from that which is given to general employees. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
8. It is the responsibility of the companies to clearly, understandably, and adequately explain the plans and their effects with examples where necessary in order to fully define intent. However, where time permits, inquiry may be made about corporate proposals which are not clear. If the information available and/or obtained is not considered clear or adequate, votes cast will be based on the surrounding circumstances and the judgement of the responsible parties.
9. Corporate proposals to reduce stock option share prices for management should be given close scrutiny. If it appears the request arises out of a broad market decline affecting all companies, favorable consideration is possible. If the stock has underperformed the market and it is concluded the causes were management decisions, a negative conclusion would be probable. Such proposals will be considered on a case-by-case basis.
10. Generally, any attempt to create an unusually favorable compensation structure in advance of sale of a company should be opposed; however, such proposals will be considered on a case-by-case basis.

E. EMPLOYEE COMPENSATION

1. Generally, employee stock purchase plans, savings and investment plans, or thrift plans are to receive a positive vote, so long as exercise or purchase price is not less than 85% of fair market value on the date of grant or purchase, and no loans are made for the purposes of settling payment for shares or any tax liability arising from exercise or purchase of such shares. Shares issued and reserved with respect to such plans shall only be done when necessary and for the specific uses of the plans. However, such proposals will be considered on a case-by-case basis.

Generally, ESOP 's which are funded by the debt of the corporation and/or which represent large percentages of the outstanding shares or cause substantial dilution to ownership and voting power are to be given a careful review. In the absence of any extraordinary or beneficial (to CalSTRS) circumstance, these plans should not be approved. Shareholder proposals which seek to have a vote on all such plans should receive a positive vote.

F. MERGERS, ACQUISITIONS, AND TAKEOVERS

1. CalSTRS wants all offers evaluated on its behalf, which are presented for any company in which it invests. To the extent that adequate information is available and legal requirements, and investment practices permit, defensive tactics should be opposed. Each proposal should be reviewed on its own merit, as nothing written here should be constructed as a substitute for the judgement of the responsible party. These defensive tactics may be, but are not limited to:
 - A. Golden parachutes.
 - B. Poison-pill preferred.
 - C. Lock-up options.
 - D. Super majority voting provisions, with the exceptions noted above in Section B (2).
 - E. Fair price or minimum price provisions.
 - F. Unequal voting rights based on length of ownership of stock.
 - G. Requiring that shareholders only be allowed to act at meetings rather than by written consent.
 - H. Requiring that all offers be approved by the company's management and/or Board of Directors before offers are submitted to shareholders.
 - I. Requiring that only the Board be allowed to increase its size, or that a super majority of all outstanding shares is necessary to create a larger Board, and allowing the Board to fill vacancies on the Board in between meetings, without shareholder approval.
 - J. Requiring that directors may only be removed for cause, usually on the basis of a supermajority vote, and that directors be allowed to fill vacancies for full terms rather than the remainder of unexpired terms.

- K. Providing for a set of designated "alternate" directors to be appointed to any mid-term vacancy.
 - L. Requiring that the power to call a special meeting of the shareholders be vested in the board and/or the Chairman exclusively, or providing that such a meeting can only be called after a demand by a supermajority of stockholders, or increasing the number of shareholders necessary to constitute a quorum at an annual or special meeting.
 - M. Adopting supermajority voting provisions for transactions between the target company and an "interested shareholder."
 - N. Requiring that the percentage vote requirement be based on all outstanding shares entitled to vote and not on votes actually cast.
 - O. Enacting redemption provisions where if any person owns a certain percentage of stock pursuant to a hostile tender offer, which is opposed by the management and/or Board of Directors, the other shareholders have the right to have their shares redeemed by the company at a specified price.
 - P. Requiring the Board and/or senior management to consider social, economic and "other factors" when evaluating a bid for the company, rather than basing its decision solely on the price being offered.
 - Q. Granting a director who is the Chairman or Chief Executive Officer a second or tie-breaking vote.
 - R. Reincorporating in other states solely for the purpose of seeking protection against tender offers and takeovers.
 - S. Issuance of new common and preferred shares and placing the issues in so called "friendly" hands, sympathetic to management.
 - T. Assuming large amounts of debt which will impair the capital position of the corporation, in order to repurchase the corporation's stock and avoid a tender offer.
2. Each proposal will be evaluated on its merits, but if it is determined that the sole aim of the proposal is to entrench management, and wrest authority and control from shareholders, a vote is to be cast against such proposals. However, this guideline is no substitute for the judgement of the responsible party.
3. CalSTRS also opposes so-called "Omnibus Resolutions, where management offers one item which is beneficial to shareholders, such as anti-greenmail, and attaches a "rider" or other items such as the ones described above, which are not in the best interests of shareholders. In this situation, a vote will be cast against the entire proposal. A letter (where appropriate) to management may be written by the designated party indicating displeasure with this "lumping" and requesting that the issues be separated.

4. Generally, votes are to be cast against proposals which adopt or give the Board of Directors discretionary power to adopt measures designed to deter takeover attempts or other attempts to obtain control of the corporation by making such attempts extremely financially unattractive or impossible, unless such action has received the prior approval of the shareholders of that company. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will dictate CalSTRS vote on this matter.
5. Reincorporation proposals will be examined on a case-by-case basis.

G. CORPORATE FINANCING PROPOSALS

1. Authorization of increased shares shall generally be limited to that amount which may be necessary for financing within the next twelve months unless the corporation sets forth other compelling reasons. It is deemed advisable to exercise some control over authorized stock and issuance thereof to allow shareholders input on acquisitions which could change the fundamental characteristics of the company held. Support will generally be given for authorization of up to 15% in excess of the current outstanding stock. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will influence CalSTRS' vote on this matter.
2. In general, all shareholder proposals on financial matters are to be given due consideration by CalSTRS and/or its advisers. It is incumbent on the companies to respond adequately to these proposals. An inadequate or casual response may affect the responsible party's deliberations and weigh in favor of voting for the shareholder proposal.

Notwithstanding any other provision of the law, every state agency owning common stock shall, when returning proxies to a corporation, vote each proxy that is returned to the corporation. Nothing in this section shall prohibit a state agency owning common stock from abstaining on a corporate or shareholder proposal and notifying the corporation in writing of the state agency's desire to abstain on a corporate or shareholder proposal.

As used in this section "state agency" includes the state, the University of California, and any office, department, bureau, board, commission, agency, or pension or retirement system thereof.

Approved by Board: June 11, 1982

Amended by Investment Committee: June 7, 1985

Amended by Investment Committee: July 19, 1985

Amended by Subcommittee on Financial Proxies: August 5, 1988

Amended by Investment Committee: October 7, 1988

Ratified by Teachers' Retirement Board: October 22, 1988

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Ratified by Teachers' Retirement Board: November 6, 1997

Amended by Investment Committee: April 3, 2002

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
1. Requires that off-balance sheet transactions be fully disclosed	X							
2. Requires corporate insiders to inform the public and the SEC within 1-2 days after they sell company stock	X			X				
3. Provides for accelerated reporting by companies of transactions by insiders in company securities, including transactions with the company			X					
4. Requires public companies to rapidly disclose information concerning their financial health and operations	X							
5. Directs the SEC to issue regulations requiring specific disclosures		X						
6. Requires accelerated filing of corporate quarterly and annual reports			X					
7. Requires companies to post their Exchange Act reports on their websites at the time of filing with the SEC			X					
8. Requires expanding the list/scope of significant corporate events that must be disclosed between reporting periods			X	X				
9. Requires the disclosure of critical accounting policies in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the company's annual report			X					

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
10. Requires corporate CEOs to attest each quarter that financial statements and corporate disclosures are accurate				X				
11. Makes it unlawful for a person associated with a company to interfere with the auditing process	X							
12. Requires the SEC to conduct regular audit reviews of the largest, most traded companies	X							
13. Requires studies on stock analyst conflicts of interest, corporate information disclosure, role of credit rating agencies, and corporate governance	X	X						
14. Requires the SEC to recommend appropriate financial treatment of stock options and conditions under which special purpose entities should be consolidated		X						
15. Makes bonuses and other incentive forms of compensation subject to disgorgement in the event of accounting restatements				X				
16. Authorizes the SEC to impose, subject to court review, a permanent ban from service as an officer or director of any public company for an individual found to have committed serious misconduct in a prior position as an officer or director				X				
17. Requires corporations to disclose on a quarterly basis, in "plain English", information within its control that a reasonable investor would find necessary to assess the company's value				X				

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
Accounting Oversight	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
1. Prohibits accounting firms from providing internal auditing and financial computer systems consulting services to their audit clients (though tax consulting services could continue)	X	X		X				
2. Restricts accounting firms from providing both auditing and non-audit services at the same time to a client		X						
3. Requires the SEC to establish specific prohibitions on the performance by the external auditor of internal audit functions for the client				Only if such service would compromise the audit				
4. Prohibits an accounting firm from providing public audit services to a corporation whose chief financial officer or controller had worked for such accounting firm in the previous two years		X						
5. Requires the external auditor to compare the quality of the corporation's financial controls with the "best practices of the industry" and give its findings to the board audit committee				X				
6. Requires more detailed disclosure of all fees paid by the audit client to the auditing firm and its affiliates				X				
7. The board audit committee would directly report to the shareholders its recommended choice of external auditor				X				

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
Accounting Oversight (cont'd)	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
8. Creates the Independent Public Accounting Board, a new public regulatory board to oversee the accounting profession	X	X		X				
9. Directs the SEC to exercise closer oversight over the Financial Accounting Standards Board to insure its independence				X				
10. Doubles the size of the SEC accounting staff		X						
11. Requires prompt promulgation of standards that reflect economic reality rather than compliance with technical requirements				X				

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
Pension Security	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
1. Requires that employees be permitted to sell company stock and diversify into other investment options after they have participated in the employer's section 401(k) plan for at least three years				X	X	X	X	
2. Permits Section 401(k) participants to diversify out of the employer stock match into other investments after 3 years of service with an employer					X			
3. Prohibits employers from forcing employees to invest any of their contributions under a defined contribution plan in employer stock					X			
4. Permits the continued use of employer stock matches and of company stock as an investment option, but not both								X
5. Requires employers to provide employees with quarterly benefit statements that provide information about the value of assets in the employee's account, the employee's right to diversify, and the importance of maintaining a diversified portfolio				X	X	X	Provides an excise tax on plans for non-compliance	X
6. Requires DB plans, at least once every 3 years and upon request, to provide vested participants with a benefit statement that could be understood by the average plan participant							X	X

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
Pension Security (cont'd)	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
7. Encourages employers to make investment advice available to employees under a provision that would exempt the employer from fiduciary liability for investment advice provided by the same financial institution that is a fiduciary advisor to the plan						X		
8. Permits employers to make investment advice available to employees if the financial advisors agree to act solely in the interests of the employees they advise				X				
9. Permits plan sponsors, under certain guidelines, to designate independent investment advisors for participants								X
10. Requires plan sponsor and administrator to provide each participant who exercises control over assets in his or her account with all material investment information regarding investment of such assets to the extent that such information is generally required to be disclosed by the plan sponsor to investors in connection with an investment under the applicable securities laws								X
11. Permits employees to pay for retirement advice and counseling on a pre-tax basis through payroll deduction					X			
12. Requires the employer to give employees a minimum 30 days notice of any "lock-down" period when investment transactions will be suspended				X	Provides an excise tax on plans for non-compliance	X	X	X

Investor Protection and Oversight Provisions

03/29/2002

Provision	Proposal							
Pension Security (cont'd)	H.R. 3763 (Oxley)	S. 2004 (Dodd- Corzine)	SEC Regulatory Approach	Administration Proposal	H.R. 3669 (Portman- Cardin)	H.R. 3762 (Boehner)	S. 1971 (Grassley)	S. 1992 (Kennedy)
13. Prevents company executives from selling company stock during a "lock-down" of rank and file employees; clarifies that employers have a fiduciary duty for the security of the employees' investments during a "lock-down"						X		
14. Subjects trading in corporate stock by insiders during a lock-down period to a 20% excise tax							X	
15. Requires a single employer plan with an individual account plan covering more than 100 participants to be governed by a board of trustees, half of whom represent participant interests. In collectively bargained plans, trustees representing employee interests would be determined by an election in which all participants may participate								X
16. Extends liability for breach of fiduciary duty to other persons who participate in or conceal such breach								X
17. Requires prompt disclosure, in electronic form, of insider stock transactions								X
18. Requires the fiduciary of an individual account plan having more than 100 participants to provide adequate insurance coverage for failure to comply with fiduciary duties								X